AN ASSESSMENT OF WORKING CAPITAL MANAGEMENT PRACTICES AT OBUOBA GROUP LIMITED, NKAWKAW.

By

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MASTERS OF BUSINESS ADMINISTRATION

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DECLARATION

I hereby declare that this submission is my own work towards the Masters of Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

This work is dedicated with all my sincere gratitude to my mother, Ms Elizabeth Aframea, the woman with the strong heart who stood by me and offered me her sincere advice anytime I was down. I also dedicate this work to the wonderful family; Marfo Boateng, Emmanuel K. Boateng, Abigail Affum, Sharon Baffour-Awuah and Josephine Agyekumhene.

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ABSTRACT

The main aim of this study is to assess the working capital practices of Obuoba Group Limited and determine whether such practices conform to the conventional working capital practices; which offer competitive advantage, as expounded in other literatures on this same topic. The study is purely qualitative in nature so the descriptive and exploratory designs were used. The case study research strategy was used in this study. The sample for the study comprises six (6) top officers of the company who were sampled using the purposive or judgemental sampling technique. The semi-structured interview was used to gather the data for this study which were subsequently categorised into sub-groups with similar themes. The themes were linked and inferences drawn to arrive at the conclusions made in this study. The results from the study highlighted that the kind of working capital policies adopted for an entity depends on the nature of business of that entity. As a result different policies were in place for the different Divisions of the company. The findings from the study show that working capital management practices at Obuoba Group Limited in many aspects conformed to the conventional working capital management. However, there were few deviations especially in the area of investment of its surplus cash. Consequently, it is recommended that the company should start investing in risk free securities like the treasury bills to boost the profits of the company. It was also recommended that training workshops should be organised for its personnel to prepare the grounds for the implementation of computerised accounting system which comes with numerous benefits to an organisation than the manual system.

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background of the Study

Most studies found in the literature of corporate finance are conventionally dealing with the financial decisions that are long-term oriented. The most of such studies examined structure of the capital, investment decisions, and dividend valuation decisions related to the company. According to Sanger in Bagchi and Kharmrui (2012, p. 1), working capital has always been ignored in financial decision-making because it involves investment and financing in short-term period and also acts as a restrain in financial performance, since it does not contribute to Return on Equity (ROE). Most managers of business organisations are inclined to focus more on long-term investment since those investments take a chunk of the cash resources of their organisations.

In as much as long-term goals provide focus and purpose for every business, these goals must be broken down into short-term operational, workable and achievable objectives for the organization to attain its mission. Short term financial decisions relating to current assets and current liabilities should also be equally important and should be analyzed carefully. The success of every long-term investment heavily depends on how effectively that investment is managed in the short-term.

Most of the operations of a firm in the short run deal with the management of current assets and current liabilities of the firm. Van Horn (2000) indicates that working capital management involves the administration of current assets and the financing (especially current liabilities) needed to support current assets. Atril (2006. p. 386) also asserts that working capital represents a net investment in short-term assets. These assets are continually flowing into and out of the business, and are essential for day-to-day operations. Working capital is thus seen as the lifeblood of the business, the fuel that funds the daily operations and ability to pursue near-term growth opportunities for the business. Working capital is also defined as money tied up in the business and used to finance its day to day needs, such as buying raw materials.

Mensah (2004), states that a major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. Mensah (2004), also, postulates that equity shortage occurs because equity investors seek highest return consistent with the risk of the investment and since SMEs investments are difficult to evaluate and their investments take time to mature, major institutional investors such as insurance companies are also allowed to invest in private SMEs. Hence there are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. An article by Winton and Tsui (2003) cited in BPP ACCA – Approved Study Text for F9 (2007. p. 116) asserts that an incredible fortune – almost US$23 billion – was begging to be accessed by finance chiefs in 45 companies in Asia. They could be using the money for acquisitions or factory expansions; they could be using it for debt repayment, or anything else they fancy. They could be, but they can’t because, unfortunately, the money is locked away in places they don’t seem to be able to touch. And these places are not like time deposit accounts, they are overdue accounts receivable, over-generous inventory levels and overly prompt bill payments. CFOs could unleash this entire fortune from working capital by conscientiously improving their management of receivables, payables and inventory levels. So close, yet so far. An effective management of working capital can, therefore, relatively be a cheaper source of finance for firms.

Nedev (2009) also states that there are always two opposing forces that affect the financial stability of firms in an economy. It is important for firms to maintain a favourable working capital. If this is not possible, firms will be forced to dispose of their non-current assets to cover their short-term financial obligations. This might lead to bankruptcy. Even if the conversion is possible, it occurs in exceptionally unfavourable conditions. Conversely, excessively large working capital indicates low operational efficiency. For instance poor debt collection, idle material reserves, poor financial management and so on. If these can be optimized, it will make funds available for profitable ventures.

A good financial management involves efficient and effective management of working capital. From finance and operation point of view, the development of a company comes from its cash flows but not profit. Profit can be said to be the excess of revenue over expenditure. The profit on the books of a company does not necessarily represent cash in hand. Profitability rate dough determines the long term growth of the company. The cash flow statement, however, shows how much cash we need in the short-term to ensure the realization of our long-term strategy in the face of competitive and imperfect markets. Managers should therefore develop working capital strategies that they can apply and monitor carefully; maintaining the right level of working capital which will ensure a balance between liquidity and profitability.

1.2 Statement of the Problem

The greater part of a firm's operations have direct and indirect influence on the working capital of the firm. For instance, the purchases of materials result in increasing the investment in materials inventory, payment of cash, or increasing payables. Sales end-up in decreasing finished goods inventory, and increasing cash or receivables. The management of the various components of working capital may be very time consuming and may even demand more time if the working capital investment and short-term financing are actively managed. However, as Rehn (2012) notes, there is a significant evidence that by effectively managing each part of working capital, a company can increase the net present value of its cash flows, thus adding to shareholder value. Again, a study conducted by Sarbapriya (2012) to investigate the relationship between working capital management components and the profitability of a sample of 311 Indian manufacturing concludes that the ability of the firm to continuously operate in longer periods depends on how they deal with investment in working capital management. Could this also be the secret behind the success story of Obuoba Group Limited? This company started as a manufacturing company making building roofing and doors. Within five years, the company has been able to add three more different businesses and currently about 80% complete to adding a fourth business being its educational complex. This makes Obuoba Group Limited one of the biggest companies if not the biggest private company in the Eastern region of Ghana.

This study therefore seeks to examine the Working Capital management practices of Obuoba Group Limited in order to ascertain whether such practices conform to the conventional working capital management practices which give competitive advantage to organisations.

1.3 Objective of the Study

Generally, the research seeks to ascertain the strategies Obuoba Group Limited uses in managing the components of working capital. Specifically, the study seeks;

1. To examine the strategies Obuoba Group Limited uses in the administration of account receivables, inventory and account payables.
2. To examine the cash management practices of Obuoba Group Limited.

3. To examine the obstacles to the effective management of working capital at Obuoba Group Limited.

1.4 Research Questions

The study seeks to find answers to the following questions:

1. How does Obuoba Group Limited effectively manages its accounts receivables, inventory and account payables.
2. What strategy is in place for treasury management at Obuoba Group Limited?
3. What are the challenges to the effective management of working capital at Obuoba Group Limited?

1.5 Scope of the Study

The study is limited to Obuoba Group Limited which is made up of four distinct Divisions, namely; Obuoba Village, Obuoba Roofing, Obuoba FM and Obuoba Distilleries. All these Divisions are within the Eastern region of Ghana, in the Kwahu West Municipality and specifically located within the Nkawkaw township. Obuoba Group was selected because of proximity, cost saving and also the desire of the researcher to assess working capital management of organizations with diverse scope of operations.

The study is also designed to elicit empirical knowledge on working capital management practices. The research will therefore seek to review the concept of management of inventories, account receivables, account payables and cash management practices.

1.6 Justification of the Study

Hopefully, the results of this study will provide managers of the company a better understanding of the substantial trade-offs between the profitability and liquidity of the company. In order to optimize the overall working capital management performance of the company, managers need to recognize and understand these trade-offs and implement continuous process improvement strategies that take them into account.

The result of the study is also expected to serve as a guide for policy makers and administrators of the company's finances in the formulation of policies concerning working capital management.

The study is also expected to emphasize the need for managers to establish a workable inter-firm control patterns which create value for the transacting firms.

It is also expected that the result of this research would serve as a point of reference for future research.

1.7 Limitations of the Study

Since the data for this study was gathered through a semi-structured interview, it is anticipated that responses gathered will reflect the reality at that time the issue of reliability may be impeded. As a result an attempt by other researchers to replicate will not be realistic or feasible (Saunders *et al* 2009. p. 328).

1.8 Organisation of the Study

The study would be organized into five chapters.

Chapter one is the General Introduction. This chapter looks at the background of the research, the problem statement, the study objectives, the research questions, justification of the study, the scope of the study, the limitations of the study and the organizations of the study.

The Chapter two will be the literature review. Here a brief introduction is given to the chapter and then followed by definition of Key concepts. This will be followed by a discussion of specific topical issues and ends with a conceptual framework.

The Chapter three will be the methodology. This chapter will focus on the sample size and the techniques that will be used in sampling, the method of data collection and analysis/statistical procedure and an organizational profile.

The chapter four will focus on the presentation of findings and analysis. Here it is expected that tables and other statistical tools will be used to analyze the data gathered and then after the findings from the analysis presented in an appropriate format.

Chapter five will be on the summary of findings, recommendations and conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews key literatures on working capital management. The chapter explores definitions of some key concepts in working capital management by looking at the meaning of ; working capital, working capital management, working capital policies, and cash conversion cycle. Relevant literatures on the main components of working capital are then examined. The chapter then ends with a diagram showing the interrelationship among the various concepts in working capital management.

2.1 Definition of Key Concepts

2.1.1 Working Capital

Working capital management refers the day to day capital required for an entity to ensure smooth operations of the entity and these may include; raw materials purchase, expenses on wages and salaries, adverts, payment of rents etc. But, still there are much diverse views on the exact meaning of working capital among various experts in the field of finance, economics, and business.

Atrill (2006. p. 386), simply defines working capital as the excess of current assets over current liabilities. The major elements of current assets include; stocks (inventories), trade debtors (receivables) and cash (in hand and at bank). Working capital consists of stocks (inventories), trade debtors; cash in hand (as current assets) as well as trade creditors (payables), and bank overdrafts (as current liabilities). Arnold (2008) also defined working capital to include “stocks of materials, fuels, semi-finished goods including work-in-progress and finished goods and by products; cash in hand and the algebraic sum of various creditors as represented by outstanding factory payments e.g.

rent, wages, interest and dividend; purchase of goods and services; short-term loans and advances and sundry debtors comprising amounts due to the factory on account of sale of goods and services and advances towards tax payments". Anold's definition provides a comprehensive list of items that go into the determination of working capital of an organization. Anold's definition, however, fails to explain how working capital can be computed for an organization as can be glaringly deduced from Atrill's definition. Thus the capital tied up in working capital is the value of raw materials, work-in-progress, finished goods inventories and account receivables less accounts payable (BPP ACCA-Approved study text, 2007, p. 114). According to Shin and Soenen (1998. p. 37), working capital is "time lag between the expenditure for the purchase of materials and collection for the sale of finished products". Thus, working capital is seen as those assets which are converted to different forms; from cash to receivables (Weston and Brigham, 1977).

In summary, working capital refers to the resources that help an organization in its day-to-day operations.

2.1.2 Working Capital Management

Management of working capital refers to the organization and control of current assets and current liabilities. This ensures a firm has enough liquid resources to effectively and effectively carry out their objectives. Management of working capital can also be said to be the short term financial planning. Implementing an effective working capital management system is an excellent way for many companies to improve their earnings. Working capital management is a very sensitive area in the field of financial management (Joshi, 2000). It involves the decision of the amount and composition of current assets and financing these assets. To be effective, Watson and Head (2010, p. 70) argues that "management of working capital needs a clear understanding its objectives.

They propose two main objectives of management of working capital; “to increase the profitability of a company and to ensure that it has sufficient liquidity to meet short-term obligation as they fall due and so continue in business (Pass and Pike 1984)”. Diacogiannis (1994) infers that there exist a horizontal relationship between an entity’s liquidity and management of working capital. Well managed working capital gives the entity an improved liquidity position. With growing sales, some firms still fail because of their inability to effectively manage their working capital. Diacogiannis (1994) again points out that there is a direct relationship between profitability and working capital management. The level of entity’s working capital affects how profitable a firm is due to the cost involved in financing the firm’s current assets. However, Watson and Head (2010, p. 70) argues that the joint objectives of profitability and liquidity will often conflict as liquid assets offers the lowest returns. Money kept in the office is likely to bring zero returns but a six-month deposit in a bank will generate an interest to compensate for loss of access.

2.1.3 Working Capital policies

A policy for working capital can be referred to as a strategy that gives guidelines for managing liquid assets and current liabilities (Brian, 2009). The focus of this strategy lies in the level of investment in working capital for operations and how much of it is financed from short term funds like bank overdraft (Watson and Head, 2010). A company should have working capital policies to minimize the possibility of managers making decisions which are not in the best interest of the company. These policies should be made concerning the individual elements of working capital. On this base the literature of finance classifies working capital policy into three categories (Arnold, 2008, p. 535 – 536).

- Aggressive policy
- Defensive policy
- Conservative policy

An aggressive policy is when a company chooses to operate with lower levels of inventory, trade receivables and cash for a given level of activity or sales (Watson and Head, 2010, p. 71). In order to improve profit, firm's management pay lesser rate of interest but this method can be risky if short-term rate of interest fluctuates or when there less cash flows (Andrew and Gallagher, 1999, p. 427).

A firm adopts defensive policy by using non-current debt and equity to finance its fixed assets and major portion of current assets. Resultantly, the level of working capital is quite high which means that a company has more liquid or current assets than current liabilities. This approach reduces risk by reducing the current liabilities but it also affects profitability because non-current debt gives high interest rate which will increase the cost of financing (Andrew and Gallagher, 1999, p. 428)

In order to balance risk and return, most firms will follow the moderate approach. This approach is a mixture of defensive working capital policy and aggressive working capital policy. In this approach temporary current assets; assets which appear on the balance sheet for a short period, will be financed by the short-term borrowings and long-term debts are used to finance fixed assets and permanent current assets. Thus the follower of this approach funds the moderate level of working capital with moderate risk and return (Andrew and Gallagher, 1999, p. 429).

According to Watson and Head (2010), "the working capital policies of a company can be characterized as aggressive, moderate or conservative only by comparing them with the working capital policies of similar companies. These are no absolute benchmarks of what may be regarded as aggressive or otherwise, but these characterizations are useful for analyzing the ways in which individual companies approach the operational problem of working capital management”.

2.1.4 Cash Conversion Cycle

The cash conversion cycle is variously called as operating cycle and working capital cycle. According to Marfo-Yiadom (2006), working capital cycle shows the period between cash purchase of raw materials and when cash is received for sales. Thus, cash conversion cycle establishes the period of time required to convert a cedi of cash disbursement back into a cedi of cash inflow from a firm’s regular course of operations.

It has been suggested by Watson and Head (2010, p. 74) that cash conversion cycle which represent the linkage between working capital elements and the inflow of cash for the firm, can be in measuring the amount of cash required for any revenue level. There is a positive relationship between cash conversion cycle and amount of investment required in working capital. Atrill (2006, p. 386) also asserts that the various elements of working capital are interrelated and can be seen as part of short-term cycle; which is the working capital cycle. The link between investment in working capital and cash flow can be shown by means of cash conversion cycle. The cash operation cycle in a manufacturing business can be defined as; the average inventory period, less payables period, plus the time taken to produce the goods, plus receivables period (BPP ACCA-Approved Study text, 2007, p.117).

According to Watson and Head (2010), the overall amount of working capital can be estimated from sales budget and cash cycle, there is going to be a variance between the forecast and the actual.

Several authors (Sarbapriya, 2012, Deloof, 2003, Shin and Soenen, 1998) conclude that there is a negative relationship between corporate profitability and Cash Conversion Cycle (CCC) in that, the smaller the CCC is, the smaller the profitability.

2.2.1 Discussion of Specific Topical Issues

2.2.1 Account Receivables Management

Selling on credit has become a necessity in conducting business today. However, offering credit has a cost, which is, the value of the interest charged on an overdraft or other short-term loan to fund the period of credit, or the interest lost on the cash not received and deposited in the bank. In addition to the aforementioned costs, Atrill (2006, p. 398) adds administration costs and bad debts. An increase profit from extra sales resulting from offering credit could offset this cost. Atrill (2006) argues that these costs must be weighed against the benefits of increased sales resulting from the opportunity for customers to delay payment. Watson and Head (2010, p. 86) also add that longer credit terms may increase turnover, but will also increase the risk of bad debts therefore the cost of increased bad debts and the cost of any additional working capital required should be less than the increased profits generated by the higher turnover.

A common goal of accounts receivable management is to ensure debts are collected within specified credit terms (Pike and Cheng, 2001). Another common goal is the identification of delinquent accounts to reduce the total credit which is written off as bad debt (Jackling et al, 2004, p. 394; Peacock et al, 2003). These two goals go normally go hand-in-hand, as early identification of delinquent customers reduce the size and age of accounts receivable and also the probability of accounts defaulting (Peacock et al, 2003).

Joshi (2000) claimed that by investing in trade receivables, firms seek to increase profitability by expanding revenue to attract new customers and keep old customers. This helps to increase sales and profit thereby helping to carve a market niche and hence gives the firm a competitive advantage.

According to Watson and Head (2010, p. 86) a firm's credit management policy should help it maximize expected profits. This requires a firm to know its current and desired cash position and its ability to meet the increase in demand. For effective credit management, the employees of the firm need training or recruitment of new staff.

In determining an optimal credit extension policy, Watson and Head (2010) assert that a firm needs to set up a credit analysis system.

The credit analysis system which Meyer et al term as the credit standard involves the decision as to which customers constitute a 'good' and 'bad' credit risk (Marfo-Yiadom, 2006, p. 273). A credit business faces the risk of bad debts and therefore care must be taken who to give credit to (Atrill, 2006, p. 398). Atrill further provides a five Cs of credit as a useful checklist for businesses when considering a proposal from a customer for the supply of goods or services on credit; capital, capacity, collateral, conditions and character.

According to Watson and Head (2010), Atrill (2006) and BPP ACCA – Approved Study Text for F9 (2007, p. 138 - 139); relevant information can be obtained from a variety of sources to assess the creditworthiness of a customer before credit is granted. They provide the following as some of the possible sources; trade references, bank references, credit agencies, and a visit the customer's place of business. This requires firms assess the credit worthiness of their customers (Atrill, 2006).

2.2.2 Account Payables Management

Trade credit arises from the fact that most businesses buy their goods and service requirements on credit. In effect, suppliers are lending the business money, interest free, on a short-term basis (Atrill, 2006). According to Hill and Sartoris in Borde and McCarty

(1998); account payables are sources of short-term finance. According to Western and Copeland (1989), trade credit represents a large percentage of short term finance. Companies therefore should have policies concerning those who authorize purchases and how purchasing is geared towards demand.

Notwithstanding the benefits trade credits may offer, there may be real costs associated with taking trade credit which will include an unfavourable terms of trade. For example, when goods are in short supply, credit customers may be less favoured in terms of delivery dates or the provision of technical support services (Atrill, 2006 p. 415).

Effective management of trade accounts payable involves seeking satisfactory credit terms from supplier, getting credit extended during periods of cash shortage, and maintain good relations with suppliers (BPP ACCA – Approved Study Text for F9 (2007, p. 147).

Marfo-Yiadom (2006) provides another form of short-term credit referred to as “accrued expenses”. This can be a substantial source of interest-free and discount-free credit. It includes outstanding PAYE and SSF, outstanding tax, and outstanding lighting and cooling bills and outstanding telephone bills. Although a company may delay payment beyond final due date, thereby obtaining even longer credit from suppliers, such a policy would generally be inadvisable. Unacceptable delays in payment will worsen the company’s credit rating and additional credit may become difficult to obtain (BPP ACCA – Approved Study Text for F9 (2007, p. 148).

2.2.3 Inventory Management

Inventory management is pivotal in effective and efficient management of working capital. It is also vital in the control of materials and goods that have to be held (or stored) for later use in the case of production or later exchange activities in the case of services (Adeyemi and Salami, 2010).

Ballon (2004) defines inventories as stockpiles of raw materials, supplies, components, work-in-progress, and finished goods that appear at numerous points throughout in a firm's production and logistics channels. According to Chase, Jacob and Aquilino (2004) inventory is the stock of any item or resource used in an organization.

Inventory management has been defined by Kotler in Adeyemi and Salami (2010) as all the activities involved in developing and managing the inventory levels of raw materials, semi-finished materials (work-in-progress) and finished good so that adequate supplies are available and the costs over or under stocks are low. Morris (1995) stressed that inventory management in its broadest perspective is to keep the most economical amount of one kind of asset in order to facilitate an increase in the total value of all assets of the organization – human and material resources. Keth et al. (1994) in their text also stated that the major objective of inventory management and control is to inform managers how much of a good to re-order, when to re-order the good, how frequently orders should be placed and what the appropriate safety stock is, for minimizing stock-outs. The benefits of holding inventory must be weighed against any costs incurred, if optimal inventory levels are to be determined (Watson and Head, 2010). Thus, the overall goal of inventory management is to have what is needed, and to minimize the number of times one is out of stock. there are three motives of holding inventory according to Starr and Miller (1962). The transaction motive which emphasizes the need to maintain inventories to facilitate smooth production and sales operation, the precautionary motive which stresses the need to hold inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors; and the speculative motive which affects the choice to change the level of inventory to exploit price fluctuations.

According to Watson and Head (2010) and BPP ACCA – Approved Study Text for F9 (2007); costs associated with inventories include; holding costs which includes the cost of capital, warehousing and handling costs, deterioration, insurance; procuring costs which include ordering and delivery costs; shortage costs which also include contribution from lost sales, extra cost of emergency delivery; and the cost of the inventory itself. Atrill (2006) asserts that there is an inverse relationship between holding costs of inventory and the procuring or ordering cost of inventory. The cost of holding stock can be substantial, and so management may try to minimize the average amount of stock held. However, by reducing the level of stock held, and therefore the holding costs, there will be a need to increase the number of orders during the period, and so ordering cost will rise (Atrill, 2006, p. 393). The aim of managers of companies should therefore be to maintain a level of inventory that will minimize both the holding cost and ordering cost of the inventory.

Some businesses therefore attempt to control inventories on a scientific basis by balancing the costs of shortages against those of inventory holding (BPP ACCA-Approved Text F9, 2007, p. 128). The 'scientific' control of inventories may be analyzed into three parts:

- The economic order quantity (EOQ) model can be used to decide the optimum order size for inventories which will minimize the costs of ordering inventories plus the inventory holding cost.
- If discounts for bulk purchases are available, it may be cheaper to buy inventories in larger order sizes so as to obtain the discounts.
- Uncertainty in the demand for inventories and/or the supply lead time may lead a company to decide to hold buffer inventories in order to reduce or eliminate the risk of 'stock-outs' (running out of inventory).

According to Marfo-Yiadom (2006, p. 279), although financial and production managers may wish to operate a zero level of investment in inventory but this can rarely be achieved. He further states that raw materials stock levels will be determined by seasonality, the reliability of supply; and efficiency of production scheduling. The level of investment in work-in-progress will be determined largely by the length of the production cycle, the efficiency of production scheduling and production control. Investment in finished goods will be determined to a great extent by the co-ordination of production and marketing, fashion and perishability.

Nevertheless, financial managers and production managers are encouraged to review on a regular basis the level of investment in raw materials, work-in-progress and finished goods with a view to recommend actions to be taken to; lower investment in inventories, eliminate certain sales items, subcontract certain items or components etc. (Marfo-Yiadom, 2006).

2.2.4 Cash Management

All companies use cash and bank balances. Cash is used to pay creditors for materials and other inputs; pay wages and salaries. This expenditure results in the creation of finished goods which are sold to customers who eventually also pay them in cash. Cash is therefore vital to finance the working capital cycle (Marfo-Yiadom, 2006).

Managing is complex in the 1990s as financial managers make the effort of pushing the last dollar of profit out of the cash control strategies (Block and Hirt, 1992).

Cash control, which form part of treasury control, seek to optimize cash available thereby maximizing the interest on spare funds and reduce losses (Watson and Head, 2010).

Atrill (2006) and Watson and Head (2010), suggest three reasons for a business to at least hold some of its assets in cash; transactions motive, precautionary motive and speculative motive.

The transaction motive stresses the need to hold cash in order to meet the regular expenses of the company. Firms requires cash reserves to balance inflows and outflows in the short-term (Watson and Head, 2010). Cash has been described as the lifeblood of a business (Atrill, 2006). Unless it circulates through the business and is available for the payment of maturing obligations, the survival of the business will be at risk.

The precautionary motive pays regard to a company's need to provide for unexpected expenses and unforeseen opportunities of advantageous purchases. The forecast of future cash flows are subject to uncertainty and it is possible that a company will experience unexpected demands for cash (Watson and Head, 2010). Given this situation, the business can retain its capacity to meet its obligation by holding a cash balance (Atrill, 2006).

Speculation purpose is another motive for cash holding. A business may decide to hold cash to put itself in a position to exploit profitable opportunities as and when they arise (Atrill, 2006). A firm with excess cash for speculative reason may choose to increase the wealth of owners of the firm by way of dividend when there is less need for the cash (Watson and Head, 2010).

According to the BPP ACCA – Approved Study Text for F9 (2007); the cash flow forecast, which shows the cash effects of all plans, serves as a powerful planning tool that organizations can use to modify flow forecast if it shows that there are insufficient cash resources to finance the planned operations.

Cash shortages can be eased by postponing capital expenditure, selling assets, taking longer to pay account payables and pressing accounts receivable for earlier payment (BPP ACCA – Approved Study Text for F9 (2007)).

The success or failure of a firm in cash management depends to a large extent in the strategy adopted. In this regard, Gitman et al. (1970) suggest that each company's uniqueness in both receiving and disbursing funds from its operations should be recognized in formulating a cash management policy. They further suggest that the adoption of cash management strategies should be based on a company's own financial conditions and objectives.

2.3 Conceptual Framework

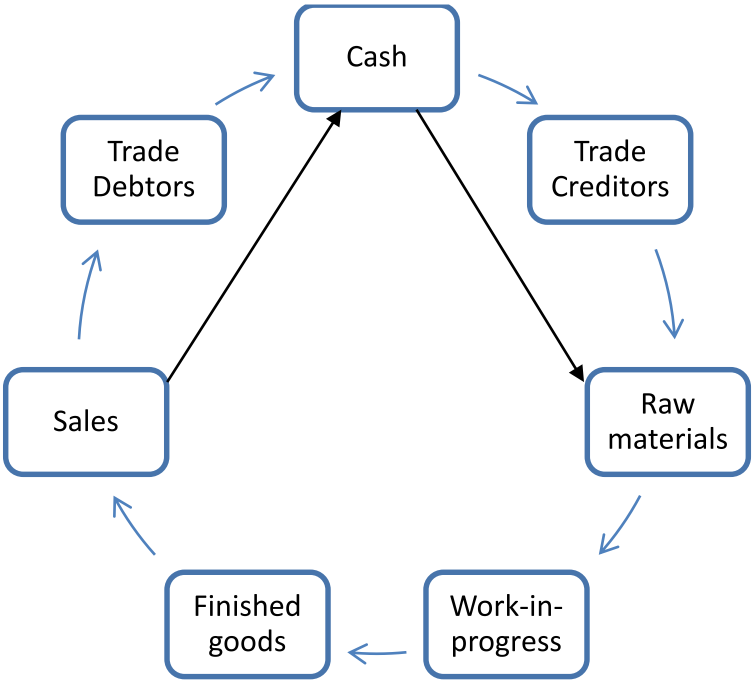

Figure 1 Working Capital Cycle

The figure above shows the working capital cycle of a typical manufacturing company. According to Marfo-Yiadom (2006), working capital cycle reflects the net time internal between actual cash expenditures on firm's purchase of productive resources and the ultimate recovery of cash receipts from product sales, establishes the period of time required to convert cedi of cash disbursements back into a cedi inflow from a firm's regular course of operations.

Cash is used to pay trade creditors for raw materials, or raw materials are bought for immediate cash settlement; cash is spent on labour and other aspects that turn raw materials into work-in-progress and, finally, into finished goods. The finished goods are sold to customers either for cash or on credit. In the case of credit customers, there will be a delay before the cash is received from sales. Receipt of cash complete the cycle (Atrill, 2006).

Every company ought to aim at optimizing investment in each stage of the working capital cycle. This implies reducing the length of the cycle by speeding the turnover of each element of the cycle when pressures are working in the opposite direction (Marfo-Yiadom, 2006).

CHAPTER THREE

METHODOLOGY AND ORGANISATIONAL PROFILE

3.0 Introduction

This Chapter deals with the methods used in the collection and presentation of field data for the study. It covers; the sample size and the technique for the selection of the sample, the method of data collection, the method of data analysis/statistical procedure and finally ends with the organizational profile of Obuoba Group Limited.

3.1 Research Design

The research purpose adopted was the descriptive and exploratory; and it is also purely qualitative in nature seeking the in-depth description of events and situations (Cooper and Schindler, 2006, p. 198). Descriptive because the study is meant to 'portray an accurate profile' of the working capital management practices of Obuoba Group Limited and exploratory as it also aims at eliciting reasons behind what they do (Robson cited in Saunders *et al*. 2009. p. 140). The research strategy, therefore, adopted for this study is the case study since it has considerable ability to generate answers to question 'why?' as well as the 'what?' and 'how' questions which are the central purpose of this study (Saunders *et al* 2009. p. 146).

3.2 Sample Size and Techniques

3.2.1. Sample size

A sample size of six was selected for this study. This includes the General Manger and the Accountant of company who were selected from the Head Office of the company and all the four Divisional Supervisors of the company. These are the personnel of the company directly responsible for the effective implementation of the working capital policies of the company.

3.2.2 Sampling Technique

The researcher used the Judgemental or Purposive sampling technique to sample the six (6) respondents for the study. 'Purposive or judgemental sampling enables you to select cases that will best enable you to answer your research question(s) and to meet your objectives' (Saunders *et al* 2009. p. 237). The researcher was interested in respondents who had wider and detailed knowledge in the working capital policies of the company and as a result had to select a particular subset of staff in the company whose responsibilities are directly related to working capital management practices of the company.

3.3 Method of Data Collection

An initial one-on-one, face-to-face interview with the main Accountant, Miss Richlove Brown, was conducted to obtain an overview of the working capital practices at Obuoba Group Limited. The outcome from this meeting necessitated the design of two different sets of questionnaires with close and open ended items which were subsequently used as interview guides to conduct a semi-structured interview one-on-one basis with the respondents. One set of the questionnaires was used to interview the respondents from the Head Office and the other set for the four Divisional supervisors. To ensure that all flaws are corrected in the questionnaires, the researcher made a pilot test study prior to the main study with some of the employees from the company who were familiar with the core operations of the all the Divisions. Finally, the necessary changes were made to the questionnaires and used as the interview guides for the semi-structured interview. Follow up questions were asked during the interview where there was the need to do so. Notes were taken to during each interview sections as data for the analysis. This data collection method was selected for the study because of the time constraint which will not permit questionnaires to be used and more importantly because this study is purely qualitative and will be analysed qualitatively.

3.4 Method of Data Analysis Procedure

The inductive approach of qualitative data analysis was adopted for this study because the research was more concerned with developing understanding rather than establishing a cause-effect link as in deductive approach. Again, the inductive approach is best suited for studies like this which is less structured, and relies on interpretations (Saunders *et al 2009*. p. 126 and 491). The researcher interviewed each respondent separately in their various offices and summarised their responses to the various questions in books. The responses gathered were then categorised into groups with similar themes with regard to the research questions. Then key themes and relationships were developed within each category which is subsequently linked with each other to draw conclusions and inferences in this study.

3.5 Ethical Considerations

Ethical considerations were made with respect to data collections and analysis. The researcher sought permission from the Head Office of the company before any interview was conducted. The consent of the Divisional supervisors was sought the researcher rather than from the directive from the Head Office. This ensured that all the respondents voluntarily participated in the study without being pressured or coerced.

Consent was also sought before using the name of any respondent in the analysis of the study. Although Divisional supervisors were unwilling to allow their names to be used, the willing accepted that their responses could be quoted in the analysis. The anonymity and confidentiality of the respondents were, thus, ensured in the data collection and analysis stage of this study.

3.6 Organisational Profile

Obuoba Group Limited is a privately held company registered under the Ghana's Company code. This is family owned company found in the Kwahu West Municipalities in the Eastern Region of Ghana.

The Board of the company comprises the Chief Executive Officer who also doubles as the majority shareholder of the company.

Obuoba Village, Obuoba Roofing, Obuoba Fm and Obuoba Distilleries are the four main Divisions that form the Obuoba Group Limited. Obuoba Group Limited can considered to be conglomerate as the four Divisions coming together to form the company deal with a variety of different business. The Obuoba Village is into catering and restaurant services and provision of space for social activities. Obuoba Roofing is into the manufacturing of roofing sheets and provision of building materials. The Obuoba FM is a social media network station. And the Obuoba Distilleries produces both Alcoholic and Non-alcoholic beverages. There is one Head Office which has the responsibility of supervising all the Divisions of the company.

The mission of the Obuoba Group of Companies is to create more employment opportunities for the youth, so that most of them who double as bread winners in their family will find some sort of financial relief.

The vision of the Group is to grow their businesses by 15 per cent each year. It is also their vision to build the best of relationships with all their clients irrespective of size and financial strength.

Currently, an additional Division; Obuoba School complex, is in the pipeline to be added to the already existing four Divisions.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter presents the results of the research and also discusses the results of the research. It comprises detail analyses of the study's specific objectives as specified in Chapter One. .

Because the implementation of working capital policies in Obuoba Group Limited has been decentralised, two different sets of interview guides were designed to gather data from the Head Office and from the four Divisions of the company. Semi-structured one-to-one interviews were conducted with each respondent with notes being taken for each session. The data gathered from each respondent were categorised into sub-headings as based on the research questions and objectives to make the analysis simpler and meaningful.

4.1 Results from the Study

4.1.0 General Information

4.1.0.1 Background of respondents

The background of the respondents of the study focussed on the level of education attained by respondents and the years of experience in their current positions.

With reference to the respondents' educational levels, the responses gathered showed that four (4) out of the 6 top officers of the company have attended school up to the Polytechnic level whiles the remaining 2 have attained their 1st Degrees from the University. The four (4) were the Divisional supervisors interviewed whiles the two (2) were the officers interviewed at the Head Office. This shows that the top officers of the company have at least attained a tertiary level of education which is a positive sign for the proper implementation of working capital practices.

The result of the study also shows that out of with the exception of the General Manager, Mr. John Klokpa, who is in his fifth year in his current position, the respondents in this study claimed they had been in their position for either three (3) years or four (4). This indicates that, all the respondents have had at least considerable experience in their current positions and are therefore familiar with the working capital policies of the company.

4.1.0.2 Record keeping system of the company and supervision

This section of the chapter provides results about the academic qualification of personnel who keep financial records, training and seminars for personnel, budget preparation, supervision of working capital practices and policies, and the kinds of financial records kept by the company.

The study reveals that there are different personnel assigned to different tasks in the record keeping system of the company. With the exception of the Head Office and the Distilleries which have four (4) and three (3) record keepers respectively who have been assigned different tasks in recording keeping, all the other three (3) Divisions have two record keepers assigned to different tasks in keeping their records. With the exception Accountant and one Accounts officer at the Head Office, all the record keepers, according to the respondents, are holders of Diploma in Business Studies (DBS). A follow-up question was put to the Accountant, Miss Richlove Brown, as to why not assigning more than one task to one person in order to save some cost in terms of hiring more employees. And her response was that "*We don't want person to start a transaction and bring it to an end. Dividing the duties among different personnel ensures that fraud* *in recording financial transactions is checked".* The results for the study revealed that the company does not organise any training workshops for its accounts officers. None of the Divisional supervisors was able to explain why such important exercise is not being carried out in the company. The Accountant noted: *"I believe it's because the CEO sees nothing wrong with our current system but I believe this can pave way to the implementation of computerized accounting systems in all the Divisions*". The responses gathered also revealed that the Head Office prepares master budget which incorporates all the Divisional budgets. All budgets including that of the Divisions and the Head Office are prepared on semi-annual basis. The Divisional supervisors have to always seek approval from the Head Office before plans in their budgets can be implemented.

There seems to be disciplined and regular supervision exercised over the Divisions from the Head Office. The General Manager claimed he pays visits to every Division once in a week whiles the Accountant also note that she goes round once in every two weeks to ensure that the Divisions stick to the laid down accounting procedures.

Records kept in the company included; the Sales Day book, Purchase Day book, General Journal Cash books, note books and accounting software which is only used at the Head Office, Judging from the records stated above, it can be said that the company has quite robust system of recording financial record.

4.1.1 Findings on the main theme of the Study

This section of the chapter takes a critical look at the main research questions and objectives. The section presents the findings from the management of account receivables, account payables and inventory; the cash management practices and problems encountered in working capital management at the company.

4.1.1.1 Management of Account receivable, Account payables and Inventory

The responses from the interview did indicate that the Distilleries and the FM do offer their products and services respectively on credit. The Supervisors from the Village and the Roofing claimed their products and services were on cash basis. The Supervisor for the Village explained that "*it is not a good financial management practice to offer services on credit basis. For example where do you get the customers to pay for the drinks or the food they eat?"* The Supervisor for the Roofing had this to say: "*We import most of our raw material so if we sell on credit, we may lose because by the time customers come to pay, exchange rate will be high"*. However, the other two supervisors and the respondents did indicate that offering their services on credit helps the company to retain customers and also attract even new ones. The FM Division is purely a service sector and offers its services on credit. The supervisor for the FM explained that: "*Now there are four FM stations in this town (Nkawkaw) and we are all fighting for the same customer, so if you don't do these things will lose all you customers to the other sister station"*. Responses gathered from the Head Office confirmed their claims and even made it clear that there is no uniform debtor payment periods for two Divisions that offer their services and products on credit. According to the Accountant and the General Manager, loyal and credible customers are given 14 days to settle their debts whiles new customers are initially given 7 days and extended if they show discipline in their payment schedule. Data gathered also indicated that customers sometimes pushed for the increase in debtor payment periods but the General Manager asserted that it was normal in any business that offers its services on credit. The company make formal assessment of the credit worthiness of customers before extending credits to them. The company does that by making trade references and also assessing past dealings with such customers. However, the respondents did indicate that no references are made from the bankers of these customers. The only evidence that existed for customers' indebtedness was signed delivery notes issued by the Distilleries and sales invoices in other cases. No formal signing of legal documents was applicable in the company. The company offered no cash discounts but trade discounts are offered to induce bulk buying; and "*to attract and retain customers"* said the General Manager. Customers' lists are also kept to monitor the payment schedules of debtors and to monitor the buying patterns of the customers. The company does not experience ageing customers' schedule since according to the Accountant, they do send reminders very often to slow paying customers as well as delinquent customer. Reminders are made mainly through the telephone and sometimes personal visits to the customer's place of business or residence. The main action taken against customers who refuse to pay their debts was to delete their names from the customers' list. Such delinquent customers are requested to pay their debts before further credits are advanced to them. The company shuns from using legal actions since, as the Accountant stated it, *"this may paint a bad image for us".*

With regard to accounts payable, it was discovered that only the FM Division did not purchase on credit. According to the supervisor for this Division, it is the Head Office that makes purchases of almost all the supplies they needed. Any other expenses made are promptly paid for. The other three Divisions that do make purchases on credit said they enjoy credits up to 7 days before settlements are made. As to whether they use the trade credits to finance shortages in cash, all the other five (5) participants' responses were negative. The Accountant remarked: *"We just take the credits because suppliers are willing to offer them not because of cash shortages. For cash, I can confidently say that we have no problem at all".* The company does not usually negotiate for increases in trade payable payment periods as was indicated in the responses of the participants in the interview. They do not use bank loans or overdraft to settle their accounts payables; neither do they default in payments of accounts payable too.

Inventory management focused on issues pertaining to the type of inventory kept, the source of raw materials, types of record kept on inventory, ordering policies and inventory control policies. The study revealed that the company kept inventories in raw materials, work – in progress and finished goods. However, the FM section indicated that they do not maintain inventory in any form. As a result throughout the data gathered, the FM Division consistently indicated that none of the data requested on inventory were applicable in their Division. The Obuoba village Division also indicated that they do not keep any work-in progress as inventory. Finding from the study also showed that two of the Divisions, being the Distilleries and the Roofing, obtained their raw materials for production from both local and foreign whiles the Village only used local suppliers from around Nkawkaw Township as well as from Accra and Kumasi. None of the Divisions that kept inventory indicated that they experience pile-up inventory at the warehouse. This might be implicitly explained by the fact that they do regular stock taking at their Division. Two (2) of the respondents from the Head Office as well as the supervisors for the Distilleries and the Village indicated that stock takings were made on weekly basis whiles the Roofing made daily stock taking. The findings from the study indicated that, the inventory control mechanism adopted by the company included; the use of tally cards, the use of surprise counts and notebooks. However, no computer applications were employed in the control of inventory. At the Divisional level, the predominant mechanism was the use of notebooks. The tally cards and the surprise counts were used by the Head office in controlling inventory at the various Divisions. The Divisions that kept some of form of inventory claimed there was existence of a re-order level policy but none of them use any form of model to estimate the quantity of stock to be ordered. They indicated that, the bases for determining the stock order quantity was their estimated demand for their products. Findings from the study also indicated that none of the Divisions kept a buffer stock. However, the findings also indicated that the Distilleries Division only keeps buffer stock when suppliers offer deep trade discounts. Although, none of the Divisions kept buffer stock, findings from the study showed that the three Divisions that kept inventory were able to prevent stock outs because the inventory ordered was able to match their expected level of operations and sales.

4.1.1.2 Liquidity (Cash) Management

This section presents findings from study of the recording of cash transactions, spending and investment patterns of the company and the form of control exercised by Head Office on the use of cash by the Division. Responses from the study depicted that all cash transactions of the Head Office and of the various Divisions are recorded by the respective accounts clerks and the kinds of records kept for the cash transactions included; Cash books, Sales Day books, Purchases Day books, Bank statements, pay-in slips, payment vouchers, cheques and note books. Compared to other books used in recording financial transactions, the cash book and the note books were used throughout the Divisions and the Head Office. All the four supervisors for Divisions affirmed that they receive cash advances from Head Office for their operations when the need arises. Notwithstanding this, two of the Divisions claimed receiving advances from the Head Office proved to be difficult. One of the supervisors for such Divisions (names withheld to ensure anonymity and confidentiality) noted: "*It is a bit difficult. They (Head Office) will tell you have to explain how you used the first one before they will give you the money".* A close look at the books being kept by the various Divisions gathered from the interview also indicated that these two Divisions kept the least records on cash transactions. The Head Office and the Divisions also prepare cash budgets to estimate the cash requirements for their operations and always strife to spend within the budgets. It is one of the company's policies that supervisors should seek approval if they will spend beyond their approved budget. Responses on cash shortages from the four supervisors of the Divisions they do intermittently experience cash shortages due to unexpected changes in the level of activities. When asked how they manage such shortages when they occur, all the four supervisors indicated that they notify the Head Office for such differences. The findings from the study again revealed that the owner do not often make capital injections into the business; which means the company has been able to spend within the cash generated from their revenue. To this the General Manager remarked: "*Apart from the initial injection (capital injection), we have never experience that before. We run the company with the proceeds that we get from sales".* Responses from the Accountant and the General Manager indicated that it was easy to obtain loans from their bankers and that loans are only contracted for capital intensive projects. The easy access to loan facilities, according to the Accountant, was due to the fact that the company has a policy of making regular deposits in their bank accounts. Each Division has separate bank accounts into which daily cash takings are deposited on daily basis. The Head Office monitor each separate account by inspecting the cash books which are daily sent to the Head Office by the four supervisors. An exercise one of the supervisors described as 'tedious'. No supervisor can make withdrawals from their separate accounts. The only signatories to these accounts are the General Manager and the Accountant. Cash was only held for transactional purposes only; no speculative or precautionary purposes.

The main investment vehicle for cash surpluses in the company was through the savings account. The Accountant made it explicitly clear that the company does not invest in any security be it short-term security or long-term security. The Accountant claimed there was enough surplus cash for investment in at least short-term instruments but approval from the CEO and the owners have not been granted yet.

4.1.1.3 Obstacles to the effective management of working capital

Data was gathered to explore some of the challenges Obuoba Group Limited face in the management of its working capital.

One of such problems discovered from the findings was the fact that with the exception of the Village which is in the same premises with the Head Office, all the other Divisions have different locations. This made the daily movements of supervisors to Head Office for submission of returns a bit tedious and boring. Another problem emanates from the deteriorating exchange rates in the country. The Accountant noted: "*We always incur higher raw materials at the Distilleries and Roofing whenever the dollar strengthens against the cedis".* The point here is that most of the raw materials used in these two divisions are imported in a dollar denominated prices.

The supervisor for the Village also complained about the perishability of its raw materials especially for its canteen. He pointed out that it prevented them to buy in bulk in order to enjoy trade discounts from suppliers.

As with every manual accounting system, the Accountant also was of the view that, computerization of the accounting system would have reduce paper work and also ensured effective control than their current manual system.

There is an implicit problem which hinders the implementation of effective working capital policies of the company. This the researcher deduced to be the owners' override of key decisions. Key policies of the company have to be approved by the CEO who doubles as the majority shareholder of the company. As a result there are some important policies which have been shelved because they have not been approved. A typical example is the company's inability to invest in even short-term securities because approval has not been given.

4.2 Analysis

Gitman et al (1970) contend that each company's uniqueness in both receiving and disbursing funds from its operations should be recognized in formulating a working capital management policy. Findings from the study depicted that all the two respondents from the Head Office indicated that different working capital policies were being implemented in the separate Divisions since each of them had a different line of business from each other. As a result, the Head Office allowed each of the Divisions to prepare its own budget but subject to the Head Office approval before implementation. An outcome from an interview of the Accountant explained further that the Divisions were in close contacts with the actual business than the personnel at the Head Office and that is why they were allowed to design their own budgets rather than one-fit all budget.

JICA (2008), concludes that a good bookkeeping system lays a foundation on which most important information can be established. In a recent study in Ghana, Tagoe *et al* (2008) found that a good record keeping separates successful small businesses from the unsuccessful ones. The findings indicated that Obuoba Group Limited has a sound record keeping system and this assertion can be implied from the various records kept on cash transactions which include the Sales journal, Purchases journal, Cash book, note books, and Payment vouchers. However, all the respondents intimated that none of the personnel that maintained the records had ever attended or benefited from any training seminar meant to improve their skills. This probably explains why the company, although expanding, but still uses the manual accounting system. The manual system of accounting also comes with numerous limitations as compared to the computerized system. Some of their limitations include; inaccuracies in processing of information, slower pace in generating information and likely human errors that affects the credibility of the information generated.

According to Cunningham *et al* (2000) businesses make sales on credit for two basic reasons: (1) credit sales offers more convenient compared to cash sales and (2) sales on credit will entice customers to buy items they might not otherwise purchase. Chandra (2008) and Fafchamps (1998) noted that firms wish to sell for cash only but due to competition and custom, firms have to settle for credit sales. The study confirms Cunningham *et al* (2000) second reason given for extension of credit and Chandra (2008) and Fafchamps (1998) reason for extending credit. This is because the reasons advanced by those Divisions that sell on credit were to induce bulk buying; and to attract and retain customers. The FM especially was keen to offer services on credit as ii finds itself in a locality with other three strong competitors in the same industry. In determining which customer to grant credit sales, past experience with a credit customer and references from other suppliers of the customer were considered extremely useful. The credit period given by the respondents indicated a fixed period of 14 days although customers kept pushing for more time settle their debt. Surprisingly, the company enjoys only seven (7) days of credit from their suppliers. This means that on average the company always has to find cash to finance its debtors for (7) days before cash is received from sales. The study also shows that the company does not use bank loans or bank overdraft to finance its accounts payables, therefore, one reason that probably explains how the company is able to maintain the current payment period policies is that its businesses are profitable. Another reason that might also explain the current payment policies is that two (2) of the Divisions do purchase on credit but do not offer their services on credit. Therefore their cash sales can be used to finance debtors within the seven (7) day period. The study revealed that the company offer trade discount purposely for attracting and retaining customers. However, no cash discounts were given to debtors to induce early payment of their debts. This probably explains why the company sometimes encounter pressures from customers for extension of the credit period and the pockets of bad debts and doubtful debts.

According to Sathyamoorthi (2001), inventory control should be exercised by any business as this is a major area calling for strict control by the proprietor. The form of control over inventory exercised by businesses is determined by a large extent, the nature of inventory kept by the business. The study revealed that the company kept inventory in the form of raw materials, work-in progress and finished goods which are sourced from both local and foreign sources. The study also shows that the note book was the popular document used to record movement in stock at the various Divisions whiles the Head Office kept Sales journal and purchases journal for the same purpose. The popular control mechanism adopted for inventory control was the surprise counts even though the Head Office also employed the tally cards in addition to the surprise counts. There was no computer software in use for recording or in assisting the control of inventory. This might be explained by the fact that there has not been any training workshop organised for the Accounts clerk. The study also revealed that the company did not use any form of model to estimate the required quantity of inventory to be ordered at any given time but there exist a policy for a re-order level for stock. Stocks were order to suit the estimated level of activities. As a result, buffer stocks were not kept at any of the Divisions even though the Distilleries Division sometimes kept buffer stock if they are given deep trade discounts by their suppliers. The study again revealed that the company has never experience stock outs before because inventory purchased always meet the level of activities. This phenomenon suggests that the demand for the products and services of the various Divisions are quite uniform so they do not experience unexpected changes in the level of their activities. Another likely reason behind their ability to maintain a low level of inventory of raw materials might be due to existence of reliable supplier of materials for the company. The company is able to enjoy reliable supply probably because it does not default in its credit payments and has very short credit payment period. This reason is based on Atrill (2006, p. 415) assertion that 'credit customers may be less favoured in terms of delivery dates or the provision of technical support services'.

Atrill (2006) asserts that there is an inverse relationship between the holding costs of inventory and the procuring or ordering cost of inventory. The study seemed to confirm Atrill's assertion, since the findings revealed that the company had not experienced unacceptable lost of inventory due to their policy of holding the minimal level of inventory. Going by Atrill's assertion will also mean the company will be incurring higher ordering cost as the company will be making regular order of inventory for its production activities.

According to Yiadom-Marfo (2006), every business uses cash balances. It is the valuable asset of a business and serves as the life blood of every entity. Therefore, successful firms are the ones whose cash is well managed. To effectively perform this function, the study shows that the company maintains separate bank accounts for each of the four Divisions which are monitored by the Head Office on weekly basis by inspection of cash books from the various Divisions and inspection of the respective bank statements. The study also revealed that the company kept in addition to the cash book and bank statement, pay-in slips, cheques, note books and payment vouchers as records to financial transactions. These documents helped the company to maintain a sound bookkeeping system which serves as the foundation on which all valuable information can be built (JICA, 2008). The study revealed that the company has a policy of banking cash takings daily. This has the tendency of facilitating the ease of obtaining loans from its banker if there is the need for it. Cash was only kept for transactional purposes and this might explain why the Divisions affirmed that they do sometimes experienced cash shortages due to unexpected changes in the level of activities. Watson and Head (2010) suggest that forecast of future cash flows are subject to uncertainty and given this situation Atrill (2006) recommends that business can retain its capacity to meet its obligation by holding a cash balance for precautionary purposes. The study, however, revealed that all the Divisions and the Head Office maintained imprest system with the Head Office maintaining the largest cash float in the system probably because the Divisions always seek their cash shortages from the Head Office as revealed by the study. The study again revealed that cash budgets were used as one of the tools in controlling the movements in the cash of the company. Because the Divisions dealt in different forms of businesses, the Head Office allowed each Division to prepare its own budget subject to the Head Office's approval whiles the Head Office prepared semi-annual master budgets which incorporated the Divisional budgets. During the preliminary interview with the Accountant, she intimated that the company has assumed the bottom-up method of preparing budget because the Divisional Supervisors have a more in-depth knowledge and experience in the activities of the their Divisions than the Head Office. The study portrayed a split response on the easiness of Divisions obtaining cash from the Head Office. Two of the supervisors of the Divisions asserted that it was easy obtaining cash from the Head Office whiles the remaining indicated that it was difficult obtaining cash from the Head Office. A careful study of the data gathered revealed that the two (2) Divisions that experienced difficulties in obtaining cash from the Head Office were those ones that also kept the minimum number of records on financial transaction. Based on the findings made by Marfo (2010) that financial record keeping is important in obtaining bank financing, this might also explain why the two (2) experienced difficulty in obtaining cash from the Head Office. The study also sought to investigate how surplus cash were invested in the company. The findings from the study revealed that all the respondents affirmed that investment of cash surpluses was made in savings accounts. This might explain why the company is highly liquid and able to settle its debts on time. However, savings account is one of the investment vehicles that give the least returns as compared to other vehicles like the treasury bills, bonds and stocks. Therefore, in the bid of the company to remain liquid, it is on other hand sacrificing potential profits that could have been earned from medium-term and long-term investment securities that offer higher returns. The study therefore confirms Azam and Haider (2011) assertion that there is inverse relationship between liquidity and profitability. An interview with the Accountant to seek explanations why the company is not investing in the other securities, her response was that *"the implementation of such decisions is above my position. It lies with the CEO and the owners of the company"*.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

This chapter of the research focuses on the summary of findings from the field study, the conclusion which spells out the important outcomes of the study and finally it ends with recommendations which were drawn based on the summary of findings.

5.1 Summary of Findings

This section presents the summarised form of the main findings of the study. To facilitate reading and understanding, these findings have been presented under the respective sub – headings as depicted below.

5.1.0 General findings

The general findings made from the study include the following:

- There is no one-fit for all accounting policies for all business. Thus the nature of a business determines the particular working capital policy that should be adopted.
- Training seminars for personnel who keep the financial records of the business is a pre-requisite to the implementation of a computerised accounting system.
- The philosophy of the owners of businesses has an influence on the management of working capital in the business.
- With conglomerate businesses like the one under study, financially sound departments can be used to help ailing but promising departments.

- The nature of business of each Division determined which component of working capital to receive greater attention. The Head Office which has a general oversight over all the Divisions considered all the components to be of equal importance and therefore should receive equal attention.

5.1.1 Findings on Account receivables management

Offering products and services on credit and offering trade discounts has the potential to win customers for the company in a competitive business environment.

5.1.2 Findings on Inventory management

- The availability of deep trade discount for the business underpins the keeping on buffer stock.
- A uniform level of demand for the products or services of the company assisted the company to keep a low level of inventory of raw materials.
- Existence of reliable suppliers of raw materials also aided the keeping of low level of inventory of raw materials.

5.1.3 Findings of Cash management

- Sound financial record keeping was a key factor in obtaining loans and financial assistance for the business productions activities.
- There is an inverse relationship between the liquidity and profitability of the business. As the business maintains high level of cash, it also sacrifices the potential profits that could be obtained investing the surplus cash in long-term investment securities that provide higher returns.

5.2 Conclusion

This research sought to investigate and analyse how Obuoba Group limited manages the various components of working capital. Attempt was made to discover whether the company conformed to the conventional working capital management practices.

Based on the findings from the study, it was discovered that efficient management of the various components of working capital has been a contributing factor to the rapid expansion of this conglomerate company.

Findings from the study revealed that Obuoba Group Limited conforms in many aspects to the conventional management of working capital as has been expounded in many literatures written about the topic.

5.3 Recommendations

Based on the findings of the study conducted, the following recommendations were made:

- It is suggested that Obuoba Group Limited organises training workshops for its accounts personnel to pave way to the implementation of computerised accounting system. This will make the company enjoy the benefits that comes from the use of computerised accounting systems.
- It is suggested that the owners and the CEO of the company allow management to invest excess bank balances in risk free investments such as treasury bills rather than leaving such huge balances with the banks.
- It is suggested that management meticulously negotiates with the suppliers to increase the accounts payable period so that loyal customers who need extension in receivable payment period could be granted such privileges.

- It is suggested that management should institute a more stringent actions against delinquent customers in addition of their deletion of their names from the customers. This will deter customers from intentionally delaying in payment of their indebtedness.
- It is suggested that management should keep part of their cash surplus in the dollar to hedge against the future fluctuations in exchange rate.
- It is suggested that the company should start thinking of networking the record keeping system of the various Divisions with the Head Office. This will help reduce the transportation costs for the company by reducing the daily movements of the supervisors from the respective Divisions to the Head Office to submit their daily returns.

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APPENDICES

APPENDIX 1

INTERVIEW GUIDE

(HEAD OFFICE)

INTRODUCTION

This is an academic research being undertaken by a Student of KNUST on the topic Assessment of Working Capital Management Practices at Obuoba Group Limited, Nkawkaw. I shall be grateful if you could respond to the understated questions. All information shall be treated as confidential**.**

SECTION A: GENERAL INFORMATION

1. What is your current position in the company? How long have you in this position
   Response:

2. Can you tell me your highest level of education?
   Response:

3. Do you keep financial records of your operations? If no why?

   Response:

4. If yes to question 3 above, are you the same person who keeps the records?
   Response:

5. If no to question 4 above, can you tell me the academic qualification of the record keeper(s)?
   Response:

6. Which kinds of financial records are kept by your Division?
   Response:
7. Does the company organise training workshops for the Accounts personnel? If yes how often and how has it impact on your operations?
   Response:

8. If no to question 7, please give reasons.
   Response:

9. Does your Head Office prepare master budgets for the whole company? If yes, how often?
   Response:

10. Is there a uniform working capital policy for all the Divisions?
    Response:

11. Do you make regular visits to the various Divisions for supervisions? If yes, how often?
    Response:

SECTION B: LIQUIDITY (CASH) MANAGEMENT

12. Do the owners often inject cash into the company?
    Response:

13. Does the company often experience cash shortages? If yes, how does it manage such situations?
    Response:

14. Does the company contract loans and overdrafts from its bankers? If yes, at what times?
    Response:

15. If yes to question14 above, how easy does the company procure such facilities?
    Response:

16. Does the Head Office prepare cash budgets for the company as a whole? If yes, how often?
    Response:

17. What policy exists in the company for cash proceeds generated daily?

    Response:

18. Is the company as a whole able to spend within it budget?
    Response:

19. Does the company as a whole have a policy for keeping cash for speculative or precautionary purposes?
    Response:

20. How does the company invest its surplus cash?
    Response:

21. Which kinds of records are kept on cash transactions?
    Response:

22. How does the Head Office monitor the separate bank accounts maintained by the various Divisions?
23. Do the Divisions have to notify Head Office if they will spend above their budgets?
    Response:
24. What problems do you face in the management of Cash at the Division?
    Response:

SECTION C: ACCOUNTS RECEIVABLES

25. Does the company sometimes sell or offer its services or goods on credit? If no why?
    Response:

26. Is there a uniform debtor payment period for all customers? If yes, what is it?
    Response:
27. Does the company often experience pressures from customers to extend credit periods?
    Response:

28. Do you undertake formal credit investigation before granting credit to your customers? If yes, how do you do that?
    Response:

29. What evidence exists for a customer's indebtedness?
    Response:

30. Is there a policy for giving cash discount to your customers? If yes, what is the motive?
    Response:

31. Does the company give trade discount? If yes, what is the motive?
    Response:

32. Does the company keep customers' list? What is the purpose of it?
    Response:

33. Do you send reminders to slow paying debtors and delinquent debtors? If yes, how often and what medium is used?
    Response:

34. Does the company often experience ageing customers' schedule?
    Response:

35. What actions are taken against customers who refuse to pay their debt on time?
    Response:

36. What problems do you encounter in the management of your account receivables?
    Response:

SECTION D: MANAGEMENT OF INVENTORY

37. Which types of Inventory does the company keep?
    Response:

38. What are the sources of the company's raw materials? Do you import some of them?
    Response:

39. Does the company often experience a pile-up of raw materials? If yes, what causes that? If no, how do you prevent that?
    Response:

40. Does the company keep records of stocks or materials? In what form are they kept?
    Response:

41. Does the company do regular stock taken at the various Divisions? If yes, how often?
    Response:

42. Do you often experience undue delays in the supply of its materials and stock? If yes, how do manage such situations?
    Response:

43. Does the company have a re-order level policy for requesting stock or material?
    Response:

44. Do you use any financial model for estimating the quantity of stock to be ordered?
    Response:

45. If No to question 43, how do you determine the quantity of stock to be ordered?
    Response:

46. Does the company keep buffer stock? If yes, for what purpose(s)? If no, why not?
    Response:

47. Do you experience unacceptable stock lost? How do you mitigate or prevent such situations?
    Response:

48. Do you sometimes experience stock out? How do you mitigate or prevent such situations?

    Response:

49. Do you do regular stock taking? If yes, how often

    Response:

50. Which inventory control system is/are in place at the company?

    Response:

51. What are some of the problems you face with regard to inventory management?

    Response:

SECTION E: CURRENT LIABILITIES

52. Does the company sometimes make purchases on credit?

    Response:

53. If yes to question 50 above, how many days or period are you given by your creditors to settle the bills?

    Response:

54. Why do you sometimes purchase on credit?

    Response:

55. Do you negotiate with your creditors to extend the credit period? Please give reasons?

    Response:

56. Do you sometimes use loans and overdrafts to settle account payables?

    Response:

57. Does the company sometimes default in payments of account payables?

    Response:

58. Which of the components of working capital; cash, account receivables, account payables and inventory, does the Head Office give preference to?

    Response:

59. From the experience you have acquired in your current position, what do you think are some of the obstacles to the effective implementation of working capital in the company?

    Response:

APPENDIX 2

INTERVIEW GUIDE

(FOR THE DIVISIONS)

INTRODUCTION

This is an academic research being undertaken by a Student of KNUST on the topic Assessment of Working Capital Management Practices at Obuoba Group Limited, Nkawkaw. I shall be grateful if you could respond to the understated questions. All information shall be treated as confidential**.**

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   Response:

5. If no to question 4 above, can you tell me the academic qualification of the record keeper(s)?

   Response:

6. Which kinds of financial records are kept by your Division?

   Response:

7. Does the company organise training workshops for the Accounts personnel? If yes how often and how has it impact on your operations?

   Response:

8. If No to question 7, please give reasons.

   Response:

9. Does your Division prepare budgets for its operations? If yes, how often and is it always approved by the Head Office?

   Response:

SECTION B: LIQUIDITY (CASH) MANAGEMENT

10. Have you been preparing cash budgets to estimate your cash requirements? If yes, how often?

    Response:

11. Does the Division or normally get cash target in advance for its business operations?

    Response:

12. How easy has it been in obtaining cash from Head Office?

    Response:

13. Do you sometimes experience cash shortages in operation? If yes, how do you manage such situations?

    Response:

14. If Yes to question 13, what is/are the possible causes of cash shortages?

    Response:

15. How does your Division control the proceeds generated on daily basis?

    Response:

16. Does the Division have a separate Bank account?

    Response:

17. If yes to question 16 above, are you allowed to make withdrawals for business use?

    Response:

18. How does the company invest its surplus cash?

    Response:

19. Which kinds of records are kept on cash transactions?

    Response:

20. What problems do you face in the management of Cash at the Division?
    Response:

SECTION C: ACCOUNTS RECEIVABLES

21. Does the Division sometimes sell or offer its services or goods on credit? If no why?
    Response:

22. If yes to question 21 above, how many days or period does the Division give to its customers to pay their bills?
    Response:

23. Does the Division experience pressures from customers to extend credit periods?
    Response:

24. Do you undertake formal credit investigation before granting credit to your customers? If yes, how do you do that?
    Response:

25. What evidence exists for a customer's indebtedness?
    Response:

26. Do you give cash discount to your customers? If yes, what is the motive?
    Response:

27. Does the Division give trade discount? If yes, what is the motive?
    Response:

28. Does the Division keep customers' list? What is the purpose of it?
    Response:

29. Do you send reminders to slow paying debtors and delinquent debtors? If yes, how often and what medium is used?
    Response:

30. Does your Division often experience ageing customers' schedule?
    Response:

31. What actions are taken against customers who refuse to pay their debt on time?
    Response:

32. What problems do you encounter in the management of your account receivables?
    Response:

SECTION D: MANAGEMENT OF INVENTORY

32. Which type of Inventory does the Division keep?
    Response:

33. What are the sources of the Division's raw materials? Do you import some of them?
    Response:

34. Does the Division often experience a pile-up of raw materials? If yes, what causes that? If no, how do you prevent that?
    Response:

35. Does the Division keep records of stocks or materials? In what form are they kept?
    Response:

36. Does the Division do regular stock taken? If yes, how often?
    Response:

37. Does your Division often experience undue delays in the supply of its materials and stock? If yes, how do manage such situations?
    Response:
38. Does the Division have a re-order level policy for requesting stock or material?
    Response:
39. Do you use any financial model for estimating the quantity of stock to be ordered?
    Response:
40. If no to question 39, how do you determine the quantity of stock to be ordered?
    Response:

41. Does the Division keep buffer stock? If yes, for what purpose(s)? If no, why not?
    Response:
42. Do you experience unacceptable stock lost? How do you mitigate or prevent such situations?
    Response:
43. Do you sometimes experience stock out? How do you mitigate or prevent such situations?
    Response:
44. Do you do regular stock taking? If yes, how often
    Response:
45. Which inventory control system is/are in place at the Division?
    Response:
45. What are some of the problems you face with regard to inventory management?
    Response:

SECTION E: CURRENT LIABILITIES

46. Does your Division sometimes purchase goods on credit?
    Response:
47. If yes to question 46 above, how many days or period are you given by your creditors to settle the bills?
    Response:
48. Why do you sometimes purchase on credit?
    Response:
49. Do you negotiate with your creditors to extend the credit period? Please give reasons?
    Response:
50. Do you sometimes use loans and overdrafts to settle account payables?
    Response:
51. Does your Division sometimes default in payments of account payables?
    Response:

52. Which of the components of working capital; cash, account receivables, account payables and inventory, does your Division give preference to?

    Response:

53. From the experience you have acquired in your current position, what do you think are some of the obstacles to the effective implementation of working capital in the company?

    Response: